

Our business plan



Striding

It boggles the mind. Every day, rain or shine, from coast to coast and on any given street corner, someone drops a letter inside a blue mailbox. Almost by magic, the letter is delivered in a race against time to another person who lives in a big city or small town, anywhere in the United States. At 32 cents, this very personal, time-honored and often overlooked service remains one of the greatest values in America.

In fiscal year 1996, the Postal Service handled 603 million pieces of mail a day delivered to 128 million addresses six days a week, for a total of more than 182 billion pieces.

"That's more than 43 percent of the world's mail volume," says William Henderson, chief operating

officer and executive vice president. Japan's postal system comes in second place, handling six percent.

"The magnitude of the Postal Service's task dwarfs the dramatically lighter load that two of our well-known competitors carry," he says. "Our employees deliver more pieces in one day than FedEx does in a year, and more in three days than UPS does annually.

"They probably couldn't handle our volume nor would they want to," says Henderson. "It's a race where they gladly concentrate on short sprints with big payoffs, but we are mandated to run the unrelenting marathon of universal service at uniform rates."



Forward



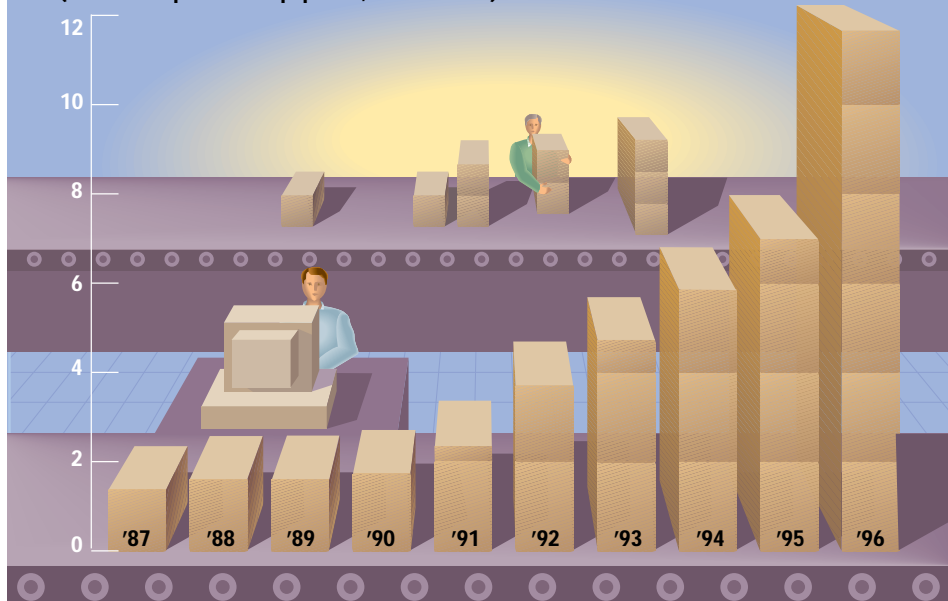
"I try my best day after day to move the mail as quickly as possible. Automation helps a lot and it helps all of us do our jobs better."

Tan Le
Senior Mail Processor

Building Strength with Technology

Since 1990, the Postal Service estimates that labor savings and cost avoidance due to automation is about \$6.5 billion. The goal is to automate the processing of all letter mail by 1998.

(cumulative pieces of equipment, in thousands)



The Postal Service's incredible workload has increased substantially over a rather short period of time. Since 1987, mail volume has grown 18.65 percent or 28.7 billion pieces of mail, an increase that is larger than the yearly volume of mail in Japan, France or Great Britain.

It's not by magic that the Postal Service of the 1990s handles this rising mountain of mail with record-breaking speed and at a price, when deflated by the Consumer Price Index, that is almost the same as it was in 1971 (eight cents).

"It takes a team of talented, dedicated employees supported by a business plan that combines modern management principles with the best in technology, equipment and transportation," says Henderson.

Focusing on goals

In fiscal year 1996, the Postal Service began *CustomerPerfect!*, a new management philosophy that serves as a blueprint for the entire organization. Deputy Postmaster General Michael Coughlin heads the initiative and believes it is a sound plan that keeps everyone on track and at optimum speed.

"It is a yearly business cycle that identifies, approves and funds only those national and local programs that can be proven to make good business sense," explains Coughlin. "Programs not meeting three national goals based on customer, business and employee needs and not meeting specific financial performance criteria are dropped. It's very straightforward."

The Postal Service met two of its three national *CustomerPerfect!* goals for fiscal year 1996. The first goal, improve customer satisfaction, was reached with record-breaking service scores. The second goal, strengthen employees' and the Postal Service's effectiveness, was partially attained with servicewide training and lost workday injury improvements. Targets for accident reduction and employee knowledge of local work unit goals were not met. And the third goal, improved financial performance, was reached when net income hit its second-highest level ever — yielding positive results as measured by Economic Value Added (EVA).

Chief Financial Officer and Senior Vice President Michael Riley believes EVA serves as the backbone for financial stability. "EVA is a mathematical formula similar to financial yardsticks used by top private sector companies like Wal-Mart, IBM and Coca-Cola," he says. "It measures the return the Postal Service receives from an activity after subtracting the cost of the capital used for that activity."

EVA holds managers accountable for financial performance, and teamwork and efficiency of eligible employee groups are rewarded through annual awards based on positive EVA results.

Doing it better

To move forward with an efficient, yet powerful stride, the Postal Service invested \$900 million in technology during fiscal year 1996, with another \$3.6 billion planned over the life of a five-year capital investment plan covering fiscal years 1997–2001. Major technological advances in the pipeline include an automated mail tray management system, robotic tray handling and automated parcel and bundle sorters.

"These investments are being made not because it is 'the thing to do'," says Riley, "but because it is the way to do things better. Making it easier for employees to succeed and to do their jobs well goes hand in hand with improved productivity and lowered costs."

For example, by the end of fiscal year 1996, automated machines called delivery bar code sorters and carrier sequence bar code sorters helped reduce the total amount of hours that employees spent each morning manually sorting mail by more than four percent compared with fiscal year 1995. These machines sort letter mail directly into the house-to-house delivery sequence that letter carriers follow on their mail routes. At the same time, hours used by employees to sort mail manually or by mechanized machinery in mail processing and distribution plants were reduced by seven percent.

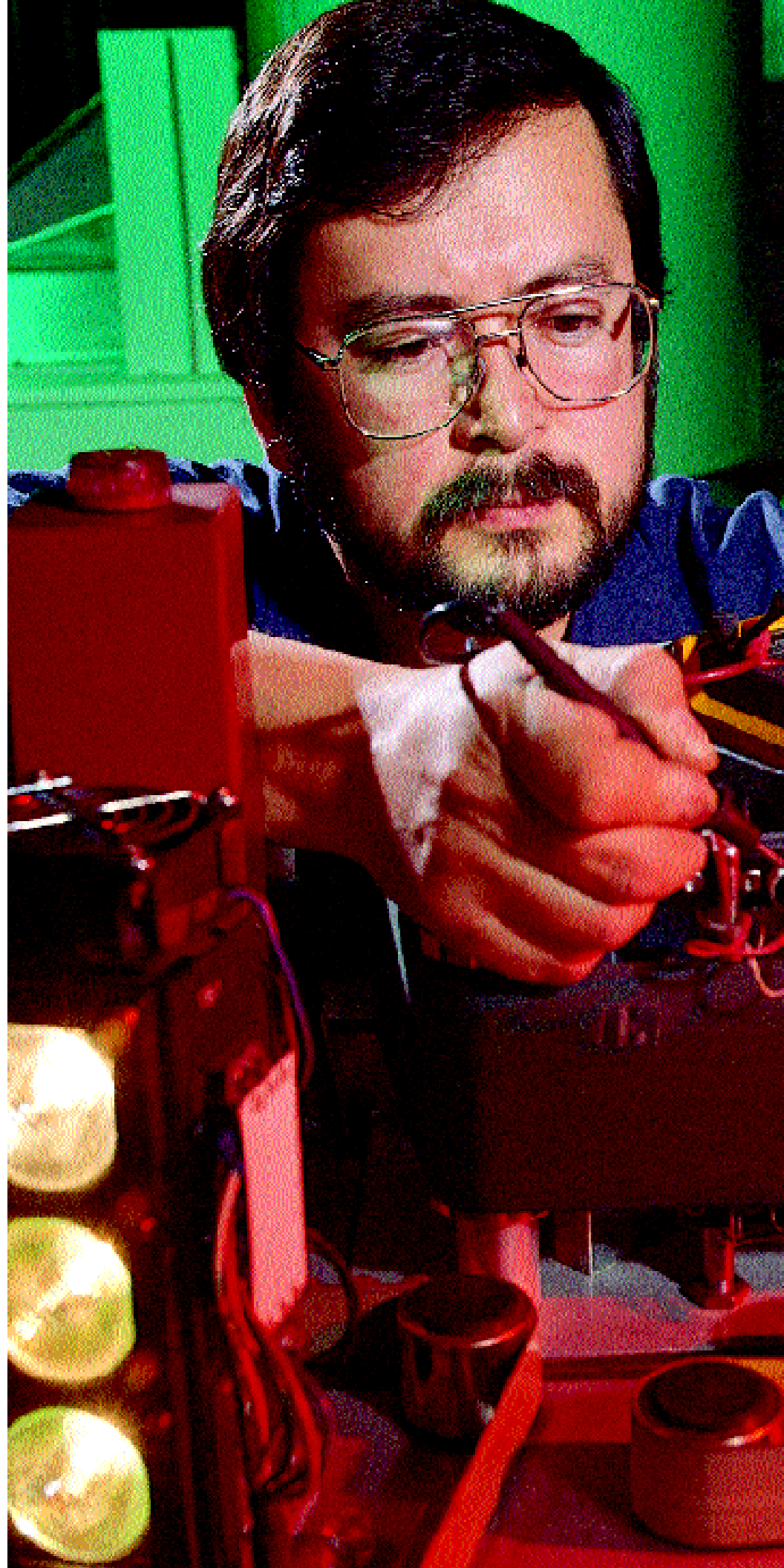
"The Postal Service also gained efficiency through technology with the increased use and expansion of national and area operations centers," adds Henderson. "Plants and post offices across the United States can turn to the centers for immediate assistance with air and ground transportation concerns during adverse weather conditions and during the heavy holiday mailing season."

Maximizing benefits of low tech

Although the operations centers and other technological advances are critical to mail processing and transportation improvements, the Postal Service continues to capitalize on the strengths of traditional means of moving the mail.

Henderson says there are many low-tech solutions where savings can be found, and service levels are the same or higher — "like the star athlete who refuses to part with old-style running shoes because they are such a natural fit."

John Cordova, electronics technician, performs routine maintenance on an optical character reader.





The Postal Service operates a \$5.5 billion transportation network.

A prime example is the Postal Service's national Hub and Spoke network, which operates six ground transportation hubs throughout the United States. The newest hub is co-located with the Postal Service's Eagle Air Transport Hub in Indianapolis, IN.

"This 24-hour facility provides economical, on-time transportation of mail that previously would have been flown aboard commercial airlines," says Henderson. "Trucks leaving the centralized location can reach areas that are better served by ground transportation. When

fully up to speed, the Indy hub is expected to significantly reduce costs."

Five additional hubs are operating throughout the United States, and four new sites are on the drawing board.

In fiscal year 1996, the Postal Service expanded its use of rail transportation, particularly during the winter months, and awarded several contracts to upgrade the world's largest fleet of delivery vehicles and trucks. Also, tests of electric-powered vehicles came to five cities, and the number of compressed natural gas-powered vehicles reached an industry-high inventory of 6,900.

Building a strong foundation

The Postal Service committed to investing \$1.2 billion in postal facilities in fiscal year 1996. The Board of Governors approved the expansion of facilities like the Jacksonville, FL, Bulk Mail Center and the Las Vegas, NV, Processing and Distribution Center. The Board also approved the construction of new facilities throughout the country, including processing plants in Seattle, WA, El Paso, TX, and Terre Haute, IN.

Another \$6.6 billion in infrastructure improvements will be invested as part of the Postal Service's five-year capital investment plan. In addition to the maintenance and improvement of 35,000 postal facilities, the plan calls for further upgrades in the delivery vehicle fleet and the development of an information technology network that will enable postal facilities to share critical data and information electronically.

Thinking strategically

Looking ahead to fiscal year 1997, the Postal Service has planned three strategic operations initiatives. The first initiative is to reduce labor intensity through the accelerated application of technology. Henderson says, "We will be using technology to replace labor; re-engineering, simplifying or eliminating processes to reduce costs and increase service; and developing operations standards and best practices."



The second initiative is to reduce growth in cost per work hour through careful management of the work force. Henderson says postal managers will closely monitor scheduling and employee job category variables to determine the most cost-effective use of work hours. "It means managing resources with flexibility," he says. "If it is more efficient and less costly to use a part-time employee for a particular task instead of paying overtime to a full-time employee, that's what managers will do. If it doesn't make good business sense, they'll look at alternatives."

The third initiative is to minimize transportation costs by considering the most efficient ways of doing business, such as bulk fuel purchases and lease consolidations. It also may include changes in modes of transportation in circumstances where ground or rail transport of mail is more cost-effective than air transport.

"These personnel and transportation factors are critical to the Postal Service's bottom line," says Henderson, "because more than 80 percent of all of our expenses goes toward personnel costs, and transportation costs are the second-highest cost factor at about seven percent."



Robotics pedestal arm, Harrisburg, PA

"Sometimes we don't appreciate how big the Postal Service really is," he says. "Here, a penny saved is much more than a penny earned. An extra cent added to any postal paycheck or a penny added to gasoline prices can, overnight, increase our costs in the millions. That's what makes the race to deliver the nation's mail to everyone, everywhere and every day such a rewarding challenge."



Flat sorting machine operators processing magazines, large envelopes and other "flats."